Financing Canada a Hard Job

Our Neighbor on the North Finds Difficulties Increased Because United States Has Entered the War

By AGNES C. LAUT.

THE announcement comes with peculiar irony to Canada that the United States will presently take steps to handle Liberty Loans after the method followed by the Dominion on Victory Loans; for Canada, dauntless Canada, with a record for her heroic fighters that has placed her reputation on a pedestal of glory and almost idolatry, is the one country among all the Allies whose financing has been made more difficult by Uncle Sam entering the war.

Belgium, France, Great Britain, Serbia, even China, have been helped financially with credits and loans by Uncle Sam's participation. For Canada alone has financing been made harder; and Canada both in peace and war is one of Uncle Sam's very best trade customers, both as a buyer and a seller.

The countries have never been closer mentally and spiritually. When Canadian troops appear on the screens in a movie on this side the line the audience claps its hands sore with enthusiasm; and when American troops passed through Canadian cities a few weeks ago they owned the towns. Canadians literally yelled their heads off with welcome. Yet Canada is the one country with a technical discrimination against her financially. Though she is one of our best customers, exchange has been running against her high as 2 per cent.

Exchange "Pegged" Elsewhere.

We have sent commissioners, official and unofficial, to Spain to right exchange, where the discount was running against us; and we have sent commissioners to Italy to right exchange, where the rate was ruling against our Italian ally. We have "pegged" exchange for our big allies like England and we have even fixed rates —and stretched the law to do it—for remote lands like India, setting the price of silver, for instance, so speculators could not buy silver cheap and sell it dear to India; but for the Dominion, which is first blood brother to Uncle Sam, we have done less than nothing.

We have permitted the war to work an utterly unnecessary hardship and handicap financially; and we have done it on a technicality far less essential than the regulations we stretched to help India.

The situation is about the best example this war has afforded financially of Mr. Bumble's description of the law as an ass and an idiot. Here in brief is the status:

Snag the first: Before the United States went into the war Canadian securities, municipal, provincial and even Federal, could be launched on the American market and were bought with greater avidity than purely British loans or Anglo-French bonds. Look up the list of values for 1916 if you want to see just how the American public regarded Canadians in comparison to Europeans. Early in the war the Canadian Government raised loans in the United States to the value of nearly $186,000,000.

But on this country entering the war the special issues committee rightly ruled against foreign securities being sold on the American market. Allies could secure credits or straight loans from the American Treasury. The national guarantee of the Allies stood behind these credits and loans and the money for the loans was raised direct from the American public by taxes and Liberty bonds, behind which again stood the guarantee of all Uncle Sam's wealth and power.

Effect of War Bond Flotations.

The arrangement looked copper riveted and nickel plated. Nobody could lose. Uncle Sam behind the Liberty bonds. The Allies behind the loans and credits. Bonds, loans and credits had practically the wealth and integrity of the allied world behind them. They would be paid. They would never be repudiated. It wasn't like a public boom when private corporations had issued private securities to general investors and when the failure of one or two corporations might set all the general investors pitching securities on the scrap heap in a general panic.

There could never be a panic in these bonds and loans backed by Governments and nations the strongest on earth. By taking national securities out of private hands and placing them solely under Treasury management an impregnable breakwater seemed to have been erected against panic or collapse.

Good! But where did that leave Canada? Before she could borrow on the American market, but now she couldn't. As a matter of fact Canadian securities are still sent down to big American houses, but they are not sold by the big American houses in the American market. They are sent back to be sold by branches of those American houses in Canada. It need hardly be guessed they are not all sold to Canadians in Canada. There are a lot of rich American corporations in Canada and there is a lot of American capital in Canada; and it takes more than "a horse high, mule strong, pig tight six foot wire fence" of regulations to keep investors seeking good securities from securities seeking good investors; but the fact is, Canadian securities are ruled off the American market during the war.

Canada technically is of the British Empire. Canada geographically and financially is first blood brother to Uncle Sam. To the British Empire our Treasury can extend credits and loans as one of the allies; but what Canada wants as to credits and loans she must get through England.

Now England at the present moment is practically borrowing from Canada. To be meticulously accurate, England is buying enormous aggregates of war supplies from Canada on long time credits. In 1917-18 she bought $860,000,000 of goods from Canada and sold back only $80,000,000 worth; but England is not parting with any coin to liquidate those credits just now. She is keeping all her coin in the realm against the day of settlement after the war. She is now financing the armies Canada sends across; but she is not paying cash for her war purchases.

Meanwhile Canada is buying enormously in the United States—for 1917 she bought $790,000,000; and though she is one of the biggest sellers to the United States, her sales here totalled only $440,000,000. To settle the difference of $350,000,000, she had—what? Abundant credits in England, yes—but those credits don't pay Canada's bills; and discount has been running against her 2 per cent.

Going to Affect All Hands.

And Canada's ox is not the only one gored. As one of the very biggest bankers in Wall Street, or in the world for that matter, said, "We are really biting off our nose to spite our face on a purely foolish technicality. The state of affairs is really going to hurt us as much as it does Canada, for if a Canadian buyer has to pay $1.02 for every $1 worth he buys here, or $1,020 for every $1,000 he buys here, he is either going to tax the consumer the difference and so decrease the sale of our goods or else he is going to buy proportionately less to make up the difference in exchange. Either way it is bad for us. Canada is one of our best customers in the world. Per capita of her population she is our biggest buyer in the world, and as her population increases she is going to be a bigger and bigger buyer. She is today one of the biggest sellers to us; per capita for her population, the biggest seller

"But that is not the worst of the colossal stupidity of this technicality keeping Canada from financing in the United States. It is going to hurt us harder right in our acute pocket nerve, and I wish every firm that makes big sales to or through Canada would take it up with our Treasury Department. I'll put it in general terms first. Heretofore when Canadian banks had big surpluses instead of transferring them to European markets to earn interest there they sent them down to our banks here. Those surpluses helped us. We needed them and could use them both to Canada's advantage and to ours.

"Now if the war goes on, or even after the war, surplus funds are going to be very good things to have in reserve. Say when England begins to pay those credits to Canada. If we on a stupid technicality discriminate against Canada now, we aren't going to get those surplus funds on deposit here. We are going to force Canada's surplus funds to European markets. That will hurt us as much as we do Canada.

"Let me explain in specific terms what I mean and how it will work. In normal times we may raise twice as much wheat in the aggregate as Canada, say 700,000,000 or 800,000,000 bushels, compared to her 350,000,000 bushels; but we are a big population and consume an enormous proportion of our own wheat, easily 600,000,000 bushels; and Canada has a small population and consumes, say, only 50,000,000 of her own crop.

Wheat to Afford Great Surplus.

"When the war is over and Canada gets in her real wheat stride she will easily produce half as much wheat as we do, say 400,000,000 bushels. And under normal conditions Canada will have a bigger surplus to export than we have; for our population has grown so much faster than our production that up to the time of the war our surplus was a shrinking total. And under normal conditions much Canadian wheat has gone out and must always go out via American ports either as flour or grain. The drafts and acceptances against foreign firms for this wheat passed through our banks and helped to create the very surplus of which I have told you; but will they pass through our hands if we force Canadian financing from our banks?

"I am for treating Canada, purely from selfish motives, exactly as we treat Texas or California. The remedy, of course, would be for England to assign some of the loans and credits we give her to our account or balance against Canada. She might as well pay her debt to Canada in that way."

One of the big Wall Street houses that formerly financed many of Canada's wheat exports to Hamburg gave precisely the same views. It considered that American ports might lose much of Canada's reexport trade by any discrimination against Canadian finance just at present.

Now consider what kind of a customer Canada is in trade markets! She has a population not so large as New York State, between 7,000,000 and 8,000,000. In 1914 her foreign trade was over a billion. Then came the burdens of war. In four years her 7,000,000 or 8,000,000 people sent to the war a third as many soldiers as the United States' 100,000,000 have sent. That is, if Uncle Sam sends as many fighters across in proportion to his population he will place 7,000,000 fighting men on the firing line.

Yet in the period when that burden fell on Canada, her foreign trade increased to two billions and a half. Her exports increased 256 per cent. Her savings deposits increased from $86 per head to $120 per head, which explains why her people have been able to finance the war. In fact, for purely war spendings, Canadians have loaned to their Government

SIR THOMAS WHITE
CANADIAN MINISTER OF FINANCE

$760,000,000, which will be a billion by the end of the year. In the four years of the war Canada has bought from the United States—according to the National City Bank statistician—$2,350,000,000—surely a customer worth favored nation treatment financially.

Her system of issuing war loans was, first to make them absolutely tax free. The next step was to prevent what has been happening too often in the United States. Here, under the enthusiasm of the moment, people and institutions would subscribe for a good round total of Liberty bonds. They would put down their first payment, then before the bonds began to sag below par throw them on the market for resale.

The result was while other people were buying Liberty bonds to hold them and borrowing from the banks to pay the instalments, before they had their final payment made, the bonds they were paying for at par had slipped 2, 3, 4 below par; and the less patriotic subscribers who waited for bargains could pick those bonds up cheaper than the people who went in debt to buy.

Victory Loans Kept Up to Par.

Canada prevented all this by a simple device. A Victory Loan special committee was formed to operate with bond dealers to purchase war loans at fixed prices. The committee and dealers then find individual purchasers for the bonds, and on disposal the committee pays the dealers a small fixed commission. No commission is paid when the dealers sell to the committee, but only when a sale is made to a purchaser. This prevents dealers liquidating unsold bonds below par and gets the bonds in the hands of permanent investors.

The committee stands ready to buy any amount of war bonds for sale, and scales the prices only for large blocks sufficient to cover underwriting expenses. Dealers must sell at a fixed price to the public. The price was first fixed at 97⅞. It was then advanced to 99½. Last month it was placed at par. The advance was the result of demand by the public for bonds that did not sag. The commission paid to the dealers was sufficient to stimulate sales. It ran at first at 1 per cent. Dealers have to agree not to take war bonds for other securities and to discourage sales of bonds by buyers.

The most striking feature of the system is that it makes the sale of bonds by the dealers an all week, all month, all year push, not a big drive followed by a slump. Most of these Canadian features are likely to be embodied in Uncle Sam's next bond sale.

It is a fairly good guess by that time something will have been done both in Washington and London to relieve Canada of the handicap of exclusion from British credits in the United States and at the same time of exclusion from the open money market of the United States.

Easy Going for This Horse in Old Buggy

IN front of an uptown restaurant stood a horse and buggy. It was a top buggy, and the horse was well kept and comfortable looking, almost portly. Around the rim of the buggy's off front wheel, between two spokes, was carried a chain that was made fast to the buggy's body.

Presently out of the house in front of which this outfit stood appeared a man who walked with calm deliberation across the sidewalk and unhooked that chain and tossed it into the buggy. Then he stepped in himself, and seating himself and gathering up the lines looked out across the horse's back and said calmly:

"Come up."

That was throwing in the clutch, or it had that effect on the horse, for at those words the horse started, responding promptly and yet with a certain deliberativeness of movement that seemed quite appropriate to a horse of habit approaching portliness. Starting thus, he kept moving at a slow, even, uniform walk. He was now on low.

When the horse had proceeded thus for a matter of maybe twenty feet the man in the buggy spoke again in the same calm, even tone as before and in the same words:

"Come up."

This time it was equivalent to shifting the gears, and at once in response the horse started up on a short stepped, easy, slow jog trot.

And that was his high, apparently, for he was still going in that manner when he passed out of this observer's eye.